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PGRI Introduction: *The consumer market-place has exploded with an increasing variety of consumer media channels, online distributional channels, and devices and user-interfaces to connect with both. More and better options for the consumer is a good thing. Increased complexity, however, can interfere with the goal of operating efficiency, delivering the best consumer experience, and delivering value to stakeholders. Recognizing this challenge, Veikkaus is taking action to preserve a customer-friendly focus amidst an increasingly complex consumer marketing environment.*

Veikkaus was the first lottery to sell tickets online, starting back in 1996. Veikkaus is now widely recognized as the most progressive and innovative lottery in the world. So it was not surprising to learn that spring of 2014 was another period of transformation. Prior to 2014, Veikkaus had several area-specific strategies in place: its business strategy, operating environment strategy, internationalisation strategy, service strategy, and personnel strategy. Under the leadership of Mr. Koponen, Veikkaus has merged these area-specific strategies into one corporate-level strategy. The goal is a customer-facing organization, an integrated system that channels operational focus towards maximizing value to the consumer, and to the stakeholders of Veikkaus which includes the entire populace of Finland.

Mr. Koponen was appointed to lead Veikkaus in 2012. We visited at Industry Days conference (Lisbon in June) to discuss its strategies to stay ahead of consumer trends and continue to deliver a modern player experience to the modern consumer.




VEIKKAUS
Joy for life.

Paul Jason, PGRI: *Managing Complexity is a big theme in the current business journals. The Veikkaus gaming portfolio stretches across great many categories including sports-betting, your internet-based revenues now exceed a third of total revenues, the rate of new game launches has never been higher, and you are innovating at land-based retail as well as your online business. How does your re-organization enable Veikkaus to manage the increased rate of innovation along with the increased complexity of the business?*

Juha Koponen: *Simplicity and clarity should always prevail over complexity. We have not labeled our change process as “managing complexity,” or even as a corporate “re-organization.” Instead, we are focusing on very specific end-results and creating a fully integrated and co-operative approach towards managing*

the business. We have developed and launched a record number of new games, updated whole new sets of business processes and retailer support systems, developed innovative player-engagement initiatives for our internet businesses—all over the past twelve months. At least as important as the number and scope of these changes, though, is the manner in which the overriding corporate objectives and the spirit of teamwork are integrated into every step of the process.

As a large corporate enterprise, individuals each have their own areas of specialization. But as a corporate mission, Veikkaus shall balance Responsible Gaming with stable support to Good Causes. This is the mission of Veikkaus set by its stakeholders. All Veikkaus team members have taken the time to learn about, understand, and embrace the value of the corporate commitments. For example, the sales and marketing departments are as committed to CSR and RG as the CSR and RG teams are committed to achieving our financial performance objectives. The commercial objective of increasing revenues, the commitment to invest in the growth of our retailer network, the commitment to continue to develop our online programs to engage and excite our players, the commitment to Corporate Social Responsibility and Responsible Gaming, the commitment to develop environmentally sensitive business processes, the commitment to the dedicated Veikkaus team of employees - all these need to be integrated such that everyone understands and embraces the importance of these and all of our corporate commitments.

But how are they integrated, specifically? Well-intentioned Mission statements are often-times announced without a concrete action plan to ensure they are understood and effectively implemented. How do you turn this vision into a reality?

J. Koponen: Instead of bringing the

different functional areas together to coordinate their agendas at the end of a process, we work more cooperatively throughout our business processes. Whether that initiative is about a new game, a new sales promotion, new Players Club initiatives, new ways to help our retailers—anything and everything is executed with input from different functional areas of the business. No dramatic changes have been made to the organizational structure. The operation of a large enterprise requires high levels of expertise that is organized into separate business groups by functional disciplines, i.e. Sales, Marketing, Production, Finance, Legal, CRS/RG, Communications, etc. As far as I can tell, that continues to be an effective organizational model, and that's why most businesses are organized with some form of that basic model. For that matter, all businesses must enable some degree of input and interaction between and among the functional areas to ensure that the mission-critical objectives are being met. A new game must, at some point, be submitted to Legal and CSR and RG to ensure its compliance with their standards and requirements. That would seem to be true for all lottery organizations. What we are doing that is different, though, is to recast the entire process so that cooperation between functional areas is systemic, an integrated part of the ongoing process from beginning to end.

Is it too early to assess the material impact of this approach?

J. Koponen: It has been an exciting year for Veikkaus. The outcomes in terms of measurable data from this latest strategy will only become visible with time. However, the 2014 results in terms of new games and initiatives, the changes in progress, the rate of innovation in business processes at every level, the development of programs that benefit our retailers and our players, are

at a peak. And we can clearly see the results in terms of the quality of work that results from a more integrated development process.

We measure results according to a number of different metrics. Sales is just one metric and, frankly, not always the most important one, but our sales will show accelerated growth this year. More important, though, is to meet and exceed the expectations of our stakeholders to produce a healthy, sustainable games-of-chance industry. These are societal goals to manage the business for the benefit of players and non-players alike, to exceed the highest standards for Corporate Social Responsibility and Responsible Gaming and environmental consciousness, and to generate stable funding to support sports, culture, science, and youth work, i.e. Good Causes for the entire citizenry of Finland.

Veikkaus has done such a great job over the last two decades. It has always been at the forefront of technological advances, new game models, and pioneering new concepts for how to best serve its players and society. How apt it is that you are the ones to raise the bar on yourselves, being the ones to pioneer the newest strategies in management and business process engineering.

J. Koponen: We are blessed with a supportive constituency of stakeholders and an internal business culture that embraces change and innovation. But that does not mitigate the challenges we face, the same challenges faced by government-lotteries everywhere. We just think that rebuilding from within, reinventing the way we approach the business of delivering peak performance to our stakeholders and value to the players, is vital to the goal of delivering on our commitments. That's why we are focusing on internal process, creating a holistic, unified, collaborative approach to execution that drives the activities of every individual and every step we take along the way.

It is a cultural change. Traditionally, the mind-set and whole approach to business is based on one's training and own personal objectives. Sales people focus on sales. CSR and RG people focus on protecting the consumer and on broader societal issues. Ditto for Legal, for distribution, game development, operations, etc. So first, we need to adjust the objectives so that everyone embraces also the broader, big-picture objective of reinventing Veikkaus on a daily basis to be the enterprise that is loved and respected by the entire populace of Finland. It is a process, the job of making it happen never ends, and we need a foundational system that supports the relentless focus on collaboration and unified action. We all bring our particular skill-sets and competencies to bear, but we all are spiritually linked to the singular mission of creating a great company. And intrinsic to the organizational structure is the process that integrates every functional area of the business from inception through development, implementation, and assessment of the outcomes. It is a cultural change for people to integrate the world-views of others that don't come naturally to them. But I can also tell you that they love it. People want to be a part of something bigger than themselves. They want to feel connected to the big-picture.

Breaking down corporate silos can be easier said than done. I know that my first impulse would be to make sure I don't reveal my whole sales agenda for people in finance, legal, and RG to shoot me down!

J. Koponen: Yes! First and foremost is to build the foundation of trust and inter-dependence. Again, I can tell you that people actually want to let go of their defensiveness. They prefer to work in an environment of mutual inter-dependence and trust. It's true that we need to nurture a sense of security and confidence that each person benefits indi-

vidually by embracing the transparency of the team approach. Life and relationships require that. And being an effective team member requires it. The Veikkaus team understands it and is excited to be a part of the over-arching strategic planning process. They are frankly happy to be a part of the process of breaking down the silos and building up the teams. They are excited on a personal level, and they see how much better the results are by working as a unified team.

Veikkaus was the first government lottery in the world to sell lottery products online. You have continued to develop your online business over the last eighteen years to the point where a third of Veikkaus' revenue comes from online customers. How did you, and how do you on an ongoing basis, enlist the support of your land-based retailers for your online strategies?

J. Koponen: We invest in their success. It is a very explicit part of our long-term strategy to develop all our channels of distribution. Two-thirds of our revenue comes from our land-based retailers. That makes them our most important channel partners. We make sure they know we are committed to their success.

For example, we are digitizing the land-based points of sale. The digital screens we install aren't just digital signs that display jackpot amounts. They are digital media channels that deliver whatever content we choose to focus on. This incredible communications network and media channel is used for our own brand messaging narratives, but it's also used for all kinds of content delivery. It attracts attention and engages the consumers in ways that benefit not just the lottery but also the retailer. By increasing the amount of time the consumer is in the store, it helps to increase sales of other products in addition to lottery.

Another example—we are investing in the technology that enable in-lane sales so when you are checking out to pay for

your produce and other products at your supermarket, you can easily pick up a lottery ticket at the same time. Easy for the consumer, easy for the store. Our retail partners see that we are innovating and investing in their success. They appreciate that and are dedicated to promoting lottery products. And digital media is ecological because it reduces the amount of printed material that we send to the shops. Digital screens do not eliminate other forms of POS and merchandising, but they do reduce the staff time needed to maintain and manage POS merchandising display.

You have added some 200 stores over the last twelve months, an increase of 7%. Have retail sales been increasing?

J. Koponen: Sales are flat at land-based retail and we do not realistically expect that to change. The growth will happen online. Not by our choice—it is just a reality. It is the choice of the consumer. Obviously, it's not just lottery products that consumers are buying online. Our retailers understand this and are working with us to evolve the service they provide to the consumer and adapt to these changes. Our retailers and we are very pleased with the stability of the land-based sales. They still comprise two-thirds of the sales and retailers know we are committed to their long-term success.

I would respectfully point out that the retailers who work cooperatively with us can still achieve growth. They not only sell more lottery products, they are more successful in all product categories. Retailers who face the realities and respond by delivering better service, modernizing the consumer in-store experience, and innovating in whatever ways they can, are adapting, succeeding, and growing their retail business. They are doing very well indeed and are well positioned also for long-term growth. Retailers who do not evolve their model and adapt with new technology to change the retail con-

sumer shopping experience are not doing as well.

We do appreciate, though, that retailing is a challenged sector and we genuinely want to help the sector adapt and succeed. Smaller kiosk-style retailers are not doing as well in any category. Unmanned pumps that result in diminished store traffic is also a problem. The best we can do is work together to maintain stability in the land-based sector. And I think we are succeeding at that goal.

You have an incredibly high rate of registered players. 54%. What are the benefits to the players that cause them to register in such high numbers?

J. Koponen: It is clear that the large share of registered gaming is supported by our success in the online channel. Keep in mind that our online programs have always required registration, starting in 1997. Today, seventeen years later, the online space is an integral part of the Finnish lifestyle and lottery players think of it as just another access point and media channel that connects them to all things including Lottery.

But the Veikkaus registered gaming really has two major components in it. One is the online sales and our customers who we serve in the online channel. The other part is the loyalty card holders who are still playing offline and register themselves fully voluntarily. These players receive a number of benefits by having and playing with a loyalty card. The players who are registered for the purpose of receiving loyalty benefits but still buy off-line at the land-based stores comprise a third of all our registered gaming. Approximately 2/3 of the registered gaming is online and 1/3 of it is offline gaming with the loyalty card. We now have over 1.6 million registered customers which is well over 30% of all adults in the country.

How do you incentivize the off-line player to register?

J. Koponen: The benefits to registration include having the winnings deposited directly into your account. The player is advised that he or she won and the funds are automatically transferred to his or her account. The player does not need to worry about losing the winning ticket, or forgetting to check the numbers. People figure that this service does not cost anything and so why wouldn't I want to make sure that the millions that I dream of winning end up in my bank account. We also give our registered customers free access to our own TV channel with sports events that cannot be viewed anywhere else. Furthermore, the registered players are given first access to various ticket sales and special promotions. Lots of draws are held where prizes, like tickets to concerts and other events, are given away to registered players. Every week we have a customer draw among the registered players. Just the fact of being registered makes you eligible for all these extra benefits and drawings. And some of the draws are for bigger prizes, like winning a trip for two to the Olympic Games. The only thing you need to do is register for a loyalty card so that you can participate in this draw.

We provide lots of other fun tools for the player to enjoy. For instance, the player may have a lucky number that they like to play. They enter their lucky numbers into their loyalty card account. When they go to their supermarket, they hand the shop assistant their card and instruct him to play the lottery with their lucky numbers.

One thing we do not offer is a bonus for playing more. Loyalty programs in other consumer products sectors are most often designed to directly drive more sales. We first and foremost drive traffic to our online channels and offer good service. Of course, there are also Responsible Gaming tools that function as a simple record to let you know how much you play and other aspects

of your playing behavior. All these tools are made available to the registered players, although we do not impose them on the players. They are free to use them or not as they choose. The wonderful thing is, when you give people the freedom to choose, they tend to behave more responsibly. And forcing them, for instance, to use RG tools, does not work well in the long term. Education and communication and making the tools as appealing as possible is the only way to engage the consumer so they choose to use them. It's about winning their hearts and minds with good service, appealing products, and respect for their intelligence and ability to behave in a mature, sensible way.

I would think the loyalty program is a good channel to implement new things, launch new products and promotions?

J. Koponen: Yes, the cutting edge is personalizing the offers. If the player tends to buy the promotions to see a movie instead of the promos to go to sports events, a professional operator shall send promos for movies and not sports. And vice-versa. If the card-holder is more into sports, we shall send content that interests them—inside information about what's going on with the teams and the players and such. With our TV Channel and other media connections, we have access to large volumes of content that enables us to become a relevant source of information to augment the product or promotions communiqués. Now we are continuously improving that service by customizing the content delivery so it aligns with the specific interests of the player.

You are using the whole loyalty card concept to transform your relationship to the consumer from an anonymous one where they just buy the product at a store into a truly interactive relationship with a constant stream of dialogue between you and the con-

sumer. The fact that 1/3 of the revenues tied to the loyalty card occur at land-based retail stores is evidence for how the consumer values this two-way connected relationship.

J. Koponen: And it really is driven by our desire to understand the consumer. We make it easy for them to tell us exactly how they want the interactive relationship to be. Some consumers choose not to receive promotions or other communiques. That's fine. The end result is that the consumer is engaged with us on their terms and that is the way it must be to develop a mutually rewarding and sustainable relationship.

It occurs to me that you have changed the whole nature of your business from one in which you sell "the hope and dream" of winning a jackpot over to a multi-dimensional relationship that engages the consumer on many different levels. This is good from an RG point of view, putting the focus on a variety of interests as opposed to the singular goal of winning money. But it's also good for you from a commercial point of view. Just as land-based stores are trying to keep the customer in the store a longer time, the consumer who is engaged with Veikkaus on many different points of interest is more likely to end up buying more lottery products.

J. Koponen: That's true. That may be a result, but that is not our sole objective. Our objective is sustainability – to develop a relationship with the consumer that is based on a healthy attitude towards recreational gaming and that includes engaging them in a wide variety of interests and rewarding value propositions. I do think the result is more sales of lottery products which benefit society and the Good Causes that Veikkaus supports. But the source of those sales increases is higher rates of participation from more and more people playing a moderate amount. We really do not push the registered players to play excessively. It's about engagement and fun and promoting a healthy play-style.

Veikkaus relies on advanced data-analytics to help channel communications that guide the player to manage their play responsibly. How does that work?

J. Koponen: We customize our marketing communication based on the customer intelligence that we collect. If we notice that someone plays excessively, we stop all customer promotions to that player. The data-analytics is applied for the purpose of helping the players play responsibly, and customizing the communication content to their individual interests. It is used to enhance the overall experience the consumer has with Veikkaus, and that means to always have a responsible approach to playing games-of-chance. Key to our business model is to engage a larger customer base to play moderate, low risk gaming.

You upgraded your Mobile technology platforms?

J. Koponen: We have upgraded our mobile platform so that it now supports all types of devices. The gaming apps can be uploaded to all the major platforms like Android, Windows phone, and IOS. The apps make it easy to store your information and access your loyalty account.

Mobile is growing fast and is now approaching 10% of our sales. Investing in the technology to keep up with the market-place, with consumer needs and expectations, is a key component to our overall mission and strategy. Mobile is already the central device for personal communications. It is rapidly becoming the key device for much of internet-based activities and transactions. Lottery needs to be where the consumer is and so that is where much of our focus is now.

Isn't it interesting, though, that fully 1/3 of your registered players only buy at land-based retail. That would seem to reflect an abiding impulse for people to buy at retail.

J. Koponen: We shall serve our customers where they are. It is not about

online or off-line. It's about the customer. It's about multiple channels for distribution and communication only because that is what the customer wants. Included in those channels are much more than our loyalty programs and land-based stores, and social media and all the other mediated ways to interact and access information. The most important channel of communication is simply people talking to each other! And we are working with both the online as well as our land-based retail partners to position themselves as the venue that facilitates that most valuable channel of people just interacting and talking with each other. Active presence in the social media is one key area for our future success.

It's like designers need to make sure that they don't get so caught up in the design process that they forget that form must follow function. Likewise, we must never forget that channel and media strategy must follow the will of the customer. As we evolve the multi-channel model, we must constantly revert back to the driver of all that we do which is the customer.

How do you succeed at commanding such huge market share over against the illegal online operators?

J. Koponen: Finland has very strict laws to regulate all forms of money gaming. Promoting foreign gaming and gambling supply to Finnish consumers is illegal. Veikkaus itself exists only to serve Finnish society. However, it is not a crime for Finnish citizens to play on foreign websites. So our strategy to succeed is to make our products so appealing to the consumer, make our company so respectable to society, make our operations so efficient, that people choose to play at Veikkaus.

In Finland, we have a legal monopoly over gaming. But we look at that as a privilege to be earned. Monopolies are not the primary market model, and many people have serious doubts and suspicions about

them, right? Capitalism normally thrives on free-market competition. So if gaming is to be granted a monopoly, we have a very special mission to perform to a standard that nobody else performs at. There are very sound reasons why a highly regulated monopoly system should be applied to the money-games industry. But that doesn't mean that we should not appreciate the unique position that puts us in and the obligation to deliver the highest quality service and performance in every single aspect of the business. We challenge ourselves at every turn to not just meet the highest standards, but to continually raise the bar and set new standards as we are able. In this interview, we haven't talked much about operational efficiency, but managing our resources, minimizing slack and waste, is also key to the commitment we have to serve society. When it comes to fighting illegal gaming, it is not the role of Veikkaus to make the laws or to enforce the laws. Our job is be the best operator so that the players choose to play with us instead of the illegal operators.

And that is in spite of the fact that the illegals can offer a higher prize payout because they don't pay taxes in Finland. An example of innovation in game design is your recent implementation of a geo-based game called Neighbours (Proxilotto).

J. Koponen: Neighbours is a fascinating new product. We have high expectations and a good start, but we do not have much performance data yet. It is a unique game, with features that are completely different from anything we have done before. Your home address is used as your entry. Then, concentric circles are drawn around the main winner and the players residing within those circles are also winners—you win by being close to the winning address. The players go online to look at the map that displays the winning geographies and how the prize monies are allocated.

It would seem to me that a concept like Neighbours is part of Veikkaus' long-term strategy to create a variety of playing experiences for the consumer who wants to be exposed to new and different kinds of games.

J. Koponen: Yes, it is definitely our long-term strategy to offer a wide range of different interesting value propositions to our customers. Neighbours is different and we believe that it will appeal to a different group of people. The draw games have appealed to the "hope and dream" of life-changing jackpot win. Neighbours is a draw game that appeals to a completely different set of buyer motives. We expect it to bring in new consumer groups and maybe appeal to the traditional players who might be ready for something different.

When you were assessing the pros and cons to launching a Proxilotto concept, wouldn't somebody have protested that the higher and much more predictable ROI would be in producing more of the games that you know people love and play, instead of trying a whole new game concept?

J. Koponen: We do not neglect our existing products or the play-style of the traditional player. For example, we have renewed this year also our most popular game, the national Lotto. We will always want to meet the needs of the traditional players and expectations for games that are familiar to them. But a truly sustainable business plan requires innovation and the investment in new customer acquisition. Expanding the customer base is the right model also from a Responsible Gaming point of view. And it's the right model from a business point of view.

The overriding wish is that Veikkaus preserves the proper balance between the commercial goals of generating funds that help society, and making sure that the activities of Veikkaus remain a healthy, enjoyable, and harmless activity for all of our players. And we need to make sure that all the people of Fin-

land know that our mission is to support Good Causes, such as culture, sports, science, and youth work. Veikkaus belongs to the people and exists to serve the people, all the people, players and non-players alike. For example, over 99% of the funding that the Finnish government gives to sports comes from Veikkaus players. The Finnish Olympic team gets their funding from our games. Practically every swimming pool or track and field place in the country received funding from Veikkaus to be built.

We recently held a competition in which we asked people to name one person in the entire country who has not benefited from Veikkaus. We would visit sports events, we would set up in the market squares, wherever there was a large crowd. People would begin by asking themselves whether they themselves have benefited. Have I benefited? I don't know. How have I benefited? Then we start. Have you ever done any sports? Gone to a swimming pool? Watched or cheered on our Olympic Team? Gone to a museum or Opera? Have you ever watched a Finnish movie - our national film industry basically exists in the current magnitude because of the subsidies from Veikkaus. So it goes on, and on, and on. It was a fun competition, and in the end every Finn has benefited from Veikkaus! ■